



**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

November 19, 2007

Members of the Arizona State Legislature

Susan Gerard, Director
Department of Health Services
150 North 18th Avenue
Phoenix, AZ 85007

Dear Ms. Gerard:

We performed our audit of the Schedules of Revenues, Expenditures, and Encumbrances of the Department of Health Services, Division of Behavioral Health Services, Title XIX and XXI Contract, for the year ended June 30, 2007, in accordance with U.S. generally accepted auditing standards. In planning and performing our audit, we considered the Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the schedules, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Division's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Division's Title XIX and XXI Contract, Schedules of Revenues, Expenditures, and Encumbrances that is more than inconsequential will not be prevented or detected by the Division's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the Schedules of Revenues, Expenditures, and Encumbrances will not be prevented or detected by the Division's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of the Arizona State Legislature

Susan Gerard, Director
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November 19, 2007
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This communication is intended solely for the information and use of the members of the Arizona State Legislature, the Department of Health Services, and the Arizona Health Care Cost Containment System, and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Debbie Davenport
Auditor General